UNITED FIRE GROUP INC
Form 10-Q
May 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended March 31, 2015

Commission File Number 001-34257

UNITED FIRE GROUP, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Iowa<br>(State of Incorporation) | 45-2302834<br>(IRS Employer Identification No.) |

118 Second Avenue, S.E., Cedar Rapids, Iowa 52401
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (319) 399-5700

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES R NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES R NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer R Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO R
As of May 1, 2015, 25,018,898 shares of common stock were outstanding.

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United Fire Group, Inc.
Index to Quarterly Report on Form 10-Q
March 31, 2015

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FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about United Fire Group, Inc. ("United Fire", the "Registrant", the "Company", "we", "us", or "our"), the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will continue," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our 2014 Annual Report on Form 10-K and Part II, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Risks and uncertainties that may affect the actual financial condition and results of the Company include but are not limited to the following:

- The frequency and severity of claims, including those related to catastrophe losses and the impact those claims have on our loss reserve adequacy;
- The occurrence of catastrophic events, including international events, significant severe weather conditions, climate change, acts of terrorism, acts of war and pandemics;
- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses and our life insurance reserve for future policy benefits;
- Geographic concentration risk in both property and casualty insurance and life insurance segments;
- The potential disruption of our operations due to unauthorized data access, cyber-attacks or cyber-terrorism and other security breaches;
- Developments in general economic conditions, domestic and global financial markets, interest rates and other-than-temporary impairment losses that could affect the performance of our investment portfolio;
- Our ability to effectively underwrite and adequately price insured risks;
- Changes in industry trends, an increase in competition and significant industry developments;
- Litigation or regulatory actions that could require us to pay significant damages, fines or penalties or change the way we do business;
- Lowering of one or more of the financial strength ratings of our operating subsidiaries or our issuer credit ratings and the adverse impact such action may have on our premium writings, policy retention, profitability and liquidity;
- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;
- NASDAQ policies or regulations relating to corporate governance and the cost of compliance;
- Our relationship with and the financial strength of our reinsurers; and
- Competitive, legal, regulatory or tax changes that affect the distribution cost or demand for our products through our independent agent/agency distribution network.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.
Consolidated Balance Sheets

| (In Thousands, Except Share Data) | March 31, 2015 (unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Investments | | |
| Fixed maturities | | |
| Held-to-maturity, at amortized cost (fair value $370 in 2015 and $404 in 2014) | $366 | $397 |
| Available-for-sale, at fair value (amortized cost $2,727,434 in 2015 and $2,773,566 in 2014) | 2,817,955 | 2,843,079 |
| Trading securities, at fair value (amortized cost $14,495 in 2015 and $14,363 in 2014) | 16,793 | 16,862 |
| Equity securities | | |
| Available-for-sale, at fair value (cost $72,238 in 2015 and $71,651 in 2014) | 243,551 | 245,843 |
| Trading securities, at fair value (cost $3,445 in 2015 and $3,708 in 2014) | 3,746 | 4,066 |
| Mortgage loans | 4,141 | 4,199 |
| Policy loans | 5,792 | 5,916 |
| Other long-term investments | 47,059 | 50,424 |
| Short-term investments | 175 | 175 |
| | 3,139,578 | 3,170,961 |
| Cash and cash equivalents | 111,320 | 90,574 |
| Accrued investment income | 27,009 | 25,989 |
| Premiums receivable (net of allowance for doubtful accounts of $746 in 2015 and $618 in 2014) | 268,956 | 249,030 |
| Deferred policy acquisition costs | 139,141 | 139,719 |
| Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $42,811 in 2015 and $41,492 in 2014) | 49,705 | 49,247 |
| Reinsurance receivables and recoverables | 83,383 | 86,810 |
| Prepaid reinsurance premiums | 3,927 | 3,632 |
| Goodwill and intangible assets | 26,086 | 26,278 |
| Other assets | 15,146 | 14,449 |
| TOTAL ASSETS | $3,864,251 | $3,856,689 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Future policy benefits and losses, claims and loss settlement expenses | | |
| Property and casualty insurance | $975,468 | $969,437 |
| Life insurance | 1,419,310 | 1,447,764 |
| Unearned premiums | 398,260 | 378,725 |
| Accrued expenses and other liabilities | 189,791 | 212,577 |
| Income taxes payable | 8,802 | 5,012 |
| Deferred income taxes | 28,387 | 25,759 |
| TOTAL LIABILITIES | $3,020,018 | $3,039,274 |
| Stockholders' Equity | | |
| | $25 | $25 |

| | | |
|---|---|---|
| Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,006,049 and 25,019,415 shares issued and outstanding in 2015 and 2014, respectively | | |
| Additional paid-in capital | 202,306 | 202,676 |
| Retained earnings | 542,223 | 523,541 |
| Accumulated other comprehensive income, net of tax | 99,679 | 91,173 |
| TOTAL STOCKHOLDERS’ EQUITY | \$844,233 | \$817,415 |
| TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY | \$3,864,251 | \$3,856,689 |

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statements of Income and Comprehensive Income (Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands, Except Share Data) | 2015 | 2014 |
| Revenues | | |
| Net premiums earned | $213,171 | $193,341 |
| Investment income, net of investment expenses | 24,363 | 26,762 |
| Net realized investment gains (includes reclassifications for net unrealized investment gains on available-for-sale securities of $1,895 in 2015 and $1,482 in 2014; previously included in accumulated other comprehensive income (loss)) | 887 | 2,194 |
| Other income | 63 | 607 |
| Total revenues | $238,484 | $222,904 |
| Benefits, Losses and Expenses | | |
| Losses and loss settlement expenses | $126,409 | $125,237 |
| Increase in liability for future policy benefits | 7,623 | 7,821 |
| Amortization of deferred policy acquisition costs | 42,472 | 39,534 |
| Other underwriting expenses (includes reclassifications for employee benefit costs of $1,867 in 2015 and $768 in 2014; previously included in accumulated other comprehensive income (loss)) | 23,534 | 26,428 |
| Interest on policyholders’ accounts | 6,615 | 7,987 |
| Total benefits, losses and expenses | $206,653 | $207,007 |
| Income before income taxes | $31,831 | $15,897 |
| Federal income tax expense (includes reclassifications of ($10) in 2015 and ($250) in 2014; previously included in accumulated other comprehensive income (loss)) | 8,152 | 2,566 |
| Net income | $23,679 | $13,331 |
| Other comprehensive income (loss) | | |
| Change in net unrealized appreciation on investments | $13,114 | $24,069 |
| Change in liability for underfunded employee benefit plans | — | — |
| Other comprehensive income, before tax and reclassification adjustments | $13,114 | $24,069 |
| Income tax effect | (4,590) | (8,425) |
| Other comprehensive income, after tax, before reclassification adjustments | $8,524 | $15,644 |
| Reclassification adjustment for net realized investment gains included in income | $(1,895) | $(1,482) |
| Reclassification adjustment for employee benefit costs included in expense | 1,867 | 768 |
| Total reclassification adjustments, before tax | $(28) | $(714) |
| Income tax effect | $10 | $250 |
| Total reclassification adjustments, after tax | $(18) | $(464) |
| Comprehensive income | $32,185 | $28,511 |
| | | |
| Weighted average common shares outstanding | 24,990,470 | 25,372,280 |
| Basic earnings per common share | $0.95 | $0.53 |
| Diluted earnings per common share | 0.94 | 0.52 |

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statement of Stockholders' Equity (Unaudited)

| (In Thousands, Except Share Data) | Three Months Ended March 31, 2015 |
| --- | --- |
| Common stock | |
| Balance, beginning of year | $25 |
| Shares repurchased (37,637 shares) | — |
| Shares issued for stock-based awards (24,271 shares) | — |
| Balance, end of period | $25 |
| | |
| Additional paid-in capital | |
| Balance, beginning of year | $202,676 |
| Compensation expense and related tax benefit for stock-based award grants | 360 |
| Shares repurchased | (1,083) |
| Shares issued for stock-based awards | 353 |
| Balance, end of period | $202,306 |
| | |
| Retained earnings | |
| Balance, beginning of year | $523,541 |
| Net income | 23,679 |
| Dividends on common stock ($0.20 per share) | (4,997) |
| Balance, end of period | $542,223 |
| | |
| Accumulated other comprehensive income, net of tax | |
| Balance, beginning of year | $91,173 |
| Change in net unrealized investment appreciation(1) | 7,292 |
| Change in liability for underfunded employee benefit plans(2) | 1,214 |
| Balance, end of period | $99,679 |
| | |
| Summary of changes | |
| Balance, beginning of year | $817,415 |
| Net income | 23,679 |
| All other changes in stockholders' equity accounts | 3,139 |
| Balance, end of period | $844,233 |

(1) The change in net unrealized appreciation is net of reclassification adjustments and income taxes.
(2) The change in liability for underfunded employee benefit plans is net of reclassification adjustments and income taxes.

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statements of Cash Flows (Unaudited)

| (In Thousands) | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Net income | $23,679 | $13,331 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Net accretion of bond premium | 3,702 | 3,701 |
| Depreciation and amortization | 1,618 | 2,295 |
| Stock-based compensation expense | 553 | 437 |
| Net realized investment gains | (887) | (2,194) |
| Net cash flows from trading investments | 510 | (5,673) |
| Deferred income tax benefit | (1,519) | (1,559) |
| Changes in: | | |
| Accrued investment income | (1,020) | (763) |
| Premiums receivable | (19,926) | (17,789) |
| Deferred policy acquisition costs | (6,333) | (2,124) |
| Reinsurance receivables | 3,427 | 2,170 |
| Prepaid reinsurance premiums | (295) | (470) |
| Income taxes receivable | — | 1,786 |
| Other assets | (697) | 2,324 |
| Future policy benefits and losses, claims and loss settlement expenses | 8,726 | 19,648 |
| Unearned premiums | 19,535 | 20,318 |
| Accrued expenses and other liabilities | (20,919) | (17,785) |
| Income taxes payable | 3,790 | 1,948 |
| Deferred income taxes | (433) | (72) |
| Other, net | 342 | (1,038) |
| Total adjustments | $(9,826) | $5,160 |
| Net cash provided by operating activities | $13,853 | $18,491 |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of available-for-sale investments | $5,017 | $— |
| Proceeds from call and maturity of held-to-maturity investments | 31 | 11 |
| Proceeds from call and maturity of available-for-sale investments | 172,825 | 103,480 |
| Proceeds from short-term and other investments | 3,450 | 764 |
| Purchase of available-for-sale investments | (133,920) | (131,989) |
| Purchase of short-term and other investments | (1,560) | (1,152) |
| Net purchases and sales of property and equipment | (1,881) | (2,860) |
| Net cash provided by (used in) investing activities | $43,962 | $(31,746) |
| Cash Flows From Financing Activities | | |
| Policyholders’ account balances | | |
| Deposits to investment and universal life contracts | $36,099 | $49,281 |
| Withdrawals from investment and universal life contracts | (67,248) | (55,882) |
| Payment of cash dividends | (4,997) | (4,567) |
| Repurchase of common stock | (1,083) | — |
| Issuance of common stock | 353 | 823 |
| Tax impact from issuance of common stock | (193) | 70 |
| Net cash used in financing activities | $(37,069) | $(10,275) |
| Net Change in Cash and Cash Equivalents | $20,746 | $(23,530) |

| | | |
|---|---|---|
| Cash and Cash Equivalents at Beginning of Period | 90,574 | 92,193 |
| Cash and Cash Equivalents at End of Period | $111,320 | $68,663 |

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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UNITED FIRE GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, unless otherwise noted)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

United Fire Group, Inc. ("United Fire", the "Registrant", the "Company", "we", "us", or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. Our insurance company subsidiaries are licensed as a property and casualty insurer in 43 states and the District of Columbia, and as a life insurer in 37 states.

Basis of Presentation

The unaudited consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X promulgated by the SEC. Certain financial information that is included in our Annual Report on Form 10-K, including certain financial statement footnote disclosures, are not required by the rules and regulations of the SEC for interim financial reporting and have been condensed or omitted.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The financial statement categories that are most dependent on management estimates and assumptions include: investments; deferred policy acquisition costs; reinsurance receivables and recoverables (for net realizable value); future policy benefits and losses, claims and loss settlement expenses; and pension and postretirement benefit obligations.

In the preparation of the accompanying unaudited Consolidated Financial Statements, we have evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Management of United Fire believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. The review report of Ernst & Young LLP as of March 31, 2015 and for the three-month periods ended March 31, 2015 and 2014 accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and non-negotiable certificates of deposit with original maturities of three months or less.

For the three-month periods ended March 31, 2015 and 2014, we made payments for income taxes totaling $6,508 and $1,007, respectively. We did not receive a tax refund during the three-month period ended March 31, 2015. We received a tax refund of $615 during the three-month period ended March 31, 2014.

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For the three-month periods ended March 31, 2015 and 2014, we made no interest payments (excluding interest credited to policyholders' accounts).

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the three-month period ended March 31, 2015.

| | Property & Casualty Insurance | Life Insurance | Total |
|---|---|---|---|
| Recorded asset at beginning of period | $72,861 | $66,858 | $139,719 |
| Underwriting costs deferred | 47,326 | 1,479 | 48,805 |
| Amortization of deferred policy acquisition costs | (40,809) | (1,663) | (42,472) |
| Ending unamortized deferred policy acquisition costs | $79,378 | $66,674 | $146,052 |
| Change in "shadow" deferred policy acquisition costs | — | (6,911) | (6,911) |
| Recorded asset at end of period | $79,378 | $59,763 | $139,141 |

Property and casualty insurance policy acquisition costs deferred are amortized as premium revenue is recognized. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value. This takes into account the premium to be earned, losses and loss settlement expenses expected to be incurred and certain other costs expected to be incurred as the premium is earned. With the completion of the Mercer Insurance Group integration, we determined it was the appropriate time to review our DAC models. After reviewing our DAC model at March 31, 2015, we enhanced our property & casualty insurance segment DAC model by updating our aggregation of certain lines of business in a manner consistent with how the policies are currently being marketed and managed. The impact of these updates to the model resulted in a decrease to other underwriting expenses of $48 and an increase to the DAC asset of $728 for the three-month period ended March 31, 2015 as compared to what we would have recognized had we not updated our model.

For traditional life insurance policies, DAC is amortized to income over the premium-paying period in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue. Expected premium revenue and gross profits are based on the same mortality and withdrawal assumptions used in determining future policy benefits. These assumptions are not revised after policy issuance unless the recorded DAC asset is deemed to be unrecoverable from future expected profits.

For non-traditional life insurance policies, DAC is amortized over the anticipated terms in proportion to the ratio of the expected annual gross profits to the total expected gross profits. Changes in the amount or timing of expected gross profits result in adjustments to the cumulative amortization of these costs. The effect on amortization of DAC for revisions to estimated gross profits is reported in earnings in the period the estimated gross profits are revised.

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset, or "shadow" DAC, to net unrealized investment appreciation as of the balance sheet date. The "shadow" DAC adjustment decreased the DAC asset by $20,294 and $13,383 at March 31, 2015 and December 31, 2014, respectively.

Income Taxes

Deferred tax assets and liabilities are established based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax

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rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

We reported a federal income tax expense of $8,152 and $2,566 for the three-month periods ended March 31, 2015 and 2014, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

The Company performs a quarterly review of its tax position and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If based on review, it appears not more likely than not that the position will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at March 31, 2015 or December 31, 2014. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

We file a consolidated federal income tax return. We also file income tax returns in various state jurisdictions. We are no longer subject to federal or state income tax examination for years before 2009. The Internal Revenue Service is conducting a routine examination of our income tax return for the 2011 tax year.

Subsequent Events

In the preparation of the accompanying financial statements, the Company has evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure in the Company's financial statements.

Recently Issued Accounting Standards

Accounting Standards Adopted in 2015

Troubled Debt Restructuring

In August 2014, the FASB issued updated guidance on the accounting for creditors who are holding receivables with troubled debt restructuring, specifically related to the classification of certain government guaranteed mortgage loans that are in foreclosure. The objective of this update is to provide greater consistency and transparency by addressing the classification of certain foreclosed mortgage loans guaranteed through government programs. The guidance is effective for interim and annual periods beginning after December 15, 2014. The Company adopted the guidance on January 1, 2015. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Discontinued Operations

In April 2014, the FASB issued new guidance on reporting discontinued operations and disclosures of disposals of components of an entity. The new guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning after December 15, 2014. The Company adopted the guidance on January 1, 2015. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Pending Adoption of Accounting Standards

Other Internal Use Software

In April 2015, the Financial Accounting Standards Board ("FASB") issued guidance which clarifies customer's accounting for fees paid for cloud computing arrangements. The new guidance provides guidance to customers

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about whether a cloud computing arrangement includes a software license or whether the arrangement is considered a service contract. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the new guidance on January 1, 2016 and is currently evaluating its accounting for cloud computing arrangements and the impact on the Company's financial position and results of operations.

Debt Issuance Costs

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the new guidance on January 1, 2016 and is currently evaluating the impact on the Company's financial position and results of operations.

Consolidation

In February 2015, the FASB issued amendments to the consolidation analysis that a reporting entity performs to determine whether it should consolidate certain legal entities. Specifically, the new guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE"), eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that have VIE's, particularly those with fee arrangements and related party relationships. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company will adopt the new guidance on January 1, 2016 and is currently evaluating the impact on the Company's financial position and results of operations.

Going Concern

In August 2014, the FASB issued new guidance on the disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, to disclose the fact and what the entity's plans are to alleviate that doubt. The guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company will adopt the guidance on January 1, 2016. Management currently does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Share Based Payments

In June 2014, the FASB issued new guidance on the accounting for share based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance requires a performance target that affects vesting and that could be achieved after the service period, be treated as a performance condition. The guidance is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively or retrospectively and early adoption is permitted. The Company will adopt the guidance on January 1, 2016 and is currently evaluating the impact on the Company's financial position and results of operations.

Revenue Recognition

In May 2014, the FASB issued comprehensive new guidance on revenue recognition which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. Insurance contracts are not within the scope of this new guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2016. The Company will adopt the guidance on January 1,

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2017 and is currently evaluating the impact on the Company's financial position and results of operations and considering which transition method it will use in implementing the new guidance.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of March 31, 2015 and December 31, 2014, is as follows:

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March 31, 2015

| Type of Investment | Cost or Amortized Cost | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Fair Value |
|---|---|---|---|---|
| HELD-TO-MATURITY | | | | |
| Fixed maturities: | | | | |
| Bonds | | | | |
| States, municipalities and political subdivisions | $55 | $1 | $— | $56 |
| Corporate bonds - financial services | 200 | — | — | 200 |
| Mortgage-backed securities | 111 | 3 | — | 114 |
| Total Held-to-Maturity Fixed Maturities | $366 | $4 | $— | $370 |
| AVAILABLE-FOR-SALE | | | | |
| Fixed maturities: | | | | |
| Bonds | | | | |
| U.S. Treasury | $20,790 | $287 | $6 | $21,071 |
| U.S. government agency | 301,686 | 5,287 | 582 | 306,391 |
| States, municipalities and political subdivisions | 765,100 | 30,327 | 722 | 794,705 |
| Foreign bonds | 125,431 | 4,724 | 468 | 129,687 |
| Public utilities | 210,251 | 8,490 | 228 | 218,513 |
| Corporate bonds | | | | |
| Energy | 117,526 | 3,554 | 467 | 120,613 |
| Industrials | 205,678 | 7,967 | 1,656 | 211,989 |
| Consumer goods and services | 172,644 | 6,253 | 175 | 178,722 |
| Health care | 89,689 | 4,025 | 29 | 93,685 |
| Technology, media and telecommunications | 130,242 | 4,650 | 345 | 134,547 |
| Financial services | 221,491 | 10,252 | 1 | 231,742 |
| Mortgage-backed securities | 16,243 | 610 | 11 | 16,842 |
| Collateralized mortgage obligations | 345,805 | 10,813 | 2,321 | 354,297 |
| Asset-backed securities | 4,858 | 293 | — | 5,151 |
| Total Available-for-Sale Fixed Maturities | $2,727,434 | $97,532 | $7,011 | $2,817,955 |
| Equity securities: | | | | |
| Common stocks | | | | |
| Public utilities | $7,231 | $11,913 | $62 | $19,082 |
| Energy | 5,625 | 7,949 | 7 | 13,567 |
| Industrials | 13,284 | 33,888 | 162 | 47,010 |
| Consumer goods and services | 10,308 | 13,189 | 1 | 23,496 |
| Health care | 7,920 | 22,039 | — | 29,959 |
| Technology, media and telecommunications | 6,207 | 6,931 | 28 | 13,110 |
| Financial services | 16,679 | 75,500 | 43 | 92,136 |
| Nonredeemable preferred stocks | 4,984 | 207 | — | 5,191 |
| Total Available-for-Sale Equity Securities | $72,238 | $171,616 | $303 | $243,551 |
| Total Available-for-Sale Securities | $2,799,672 | $269,148 | $7,314 | $3,061,506 |

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December 31, 2014

| Type of Investment | Cost or Amortized Cost | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Fair Value |
|---|---|---|---|---|
| HELD-TO-MATURITY | | | | |
| Fixed maturities: | | | | |
| Bonds | | | | |
| States, municipalities and political subdivisions | $55 | $— | $— | $55 |
| Corporate bonds - financial services | 200 | — | — | 200 |
| Mortgage-backed securities | 142 | 7 | — | 149 |
| Total Held-to-Maturity Fixed Maturities | $397 | $7 | $— | $404 |
| AVAILABLE-FOR-SALE | | | | |
| Fixed maturities: | | | | |
| Bonds | | | | |
| U.S. Treasury | $25,856 | $168 | $52 | $25,972 |
| U.S. government agency | 349,747 | 4,347 | 2,422 | 351,672 |
| States, municipalities and political subdivisions | 748,632 | 30,395 | 742 | 778,285 |
| Foreign bonds | 136,487 | 4,132 | 446 | 140,173 |
| Public utilities | 206,366 | 6,479 | 488 | 212,357 |
| Corporate bonds | | | | |
| Energy | 135,068 | 2,858 | 793 | 137,133 |
| Industrials | 211,256 | 6,373 | 2,154 | 215,475 |
| Consumer goods and services | 172,623 | 4,702 | 324 | 177,001 |
| Health care | 86,017 | 3,228 | 210 | 89,035 |
| Technology, media and telecommunications | 131,465 | 3,863 | 799 | 134,529 |
| Financial services | 215,095 | 8,574 | 87 | 223,582 |
| Mortgage-backed securities | 17,121 | 483 | 46 | 17,558 |
| Collateralized mortgage obligations | 335,092 | 7,003 | 4,806 | 337,289 |
| Asset-backed securities | 2,741 | 277 | — | 3,018 |
| Total Available-for-Sale Fixed Maturities | $2,773,566 | $82,882 | $13,369 | $2,843,079 |
| Equity securities: | | | | |
| Common stocks | | | | |
| Public utilities | $7,231 | $13,103 | $44 | $20,290 |
| Energy | 5,094 | 8,623 | — | 13,717 |
| Industrials | 13,284 | 32,299 | 124 | 45,459 |
| Consumer goods and services | 10,294 | 13,295 | 275 | 23,314 |
| Health care | 7,920 | 22,436 | — | 30,356 |
| Technology, media and telecommunications | 6,207 | 7,846 | 58 | 13,995 |
| Financial services | 16,637 | 77,077 | 51 | 93,663 |
| Nonredeemable preferred stocks | 4,984 | 72 | 7 | 5,049 |
| Total Available-for-Sale Equity Securities | $71,651 | $174,751 | $559 | $245,843 |
| Total Available-for-Sale Securities | $2,845,217 | $257,633 | $13,928 | $3,088,922 |

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Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at March 31, 2015, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

| | Held-To-Maturity | | Available-For-Sale | | Trading | |
|---|---|---|---|---|---|---|
| March 31, 2015 | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $55 | $56 | $242,924 | $245,549 | $2,246 | $2,846 |
| Due after one year through five years | 200 | 200 | 815,499 | 854,281 | 7,361 | 7,914 |
| Due after five years through 10 years | — | — | 853,096 | 882,432 | 1,998 | 2,499 |
| Due after 10 years | — | — | 449,009 | 459,403 | 2,890 | 3,534 |
| Asset-backed securities | — | — | 4,858 | 5,151 | — | — |
| Mortgage-backed securities | 111 | 114 | 16,243 | 16,842 | — | — |
| Collateralized mortgage obligations | — | — | 345,805 | 354,297 | — | — |
| | $366 | $370 | $2,727,434 | $2,817,955 | $14,495 | $16,793 |

Net Realized Investment Gains and Losses

Net realized gains on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of the components of net realized investment gains is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Net realized investment gains (losses) | | |
| Fixed maturities: | | |
| Available-for-sale | $991 | $647 |
| Trading securities | | |
| Change in fair value | (201) | 300 |
| Sales | 516 | 235 |
| Equity securities: | | |
| Available-for-sale | 904 | 835 |
| Trading securities | | |
| Change in fair value | (56) | 177 |
| Sales | 46 | — |
| Other long-term investments | (1,313) | — |
| Total net realized investment gains | $887 | $2,194 |

The proceeds and gross realized gains on the sale of available-for-sale securities are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Proceeds from sales | $5,017 | $— |
| Gross realized gains | 973 | — |
| Gross realized losses | — | — |

There were no sales of held-to-maturity securities during the three-month periods ended March 31, 2015 and 2014.

Our investment portfolio includes trading securities with embedded derivatives. These securities are primarily convertible securities which are recorded at fair value. Income or loss, including the change in the fair value of these

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trading securities, is recognized currently in earnings as a component of net realized investment gains. Our portfolio of trading securities had a fair value of $20,539 and $20,928 at March 31, 2015 and December 31, 2014, respectively.

Funding Commitment

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through December 31, 2023 to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was $10,270 at March 31, 2015.

Unrealized Appreciation

A summary of the changes in net unrealized investment appreciation during the reporting period is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Change in net unrealized investment appreciation | | |
| Available-for-sale fixed maturities | $21,008 | $28,563 |
| Available-for-sale equity securities | (2,879) | 2,945 |
| Deferred policy acquisition costs | (6,911) | (8,920) |
| Income tax effect | (3,926) | (7,907) |
| Total change in net unrealized investment appreciation, net of tax | $7,292 | $14,681 |

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires other-than-temporary impairment ("OTTI") charges to be recorded when we determine that it is more likely than not that we will be unable to collect all amounts due according to the contractual terms of the fixed maturity security or that the anticipated recovery in fair value of the equity security will not occur in a reasonable amount of time. Impairment charges on investments are recorded based on the fair value of the investments at the measurement date. Factors considered in evaluating whether a decline in value is other-than-temporary include: the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; our intention to hold the investment; and the likelihood that we will be required to sell the investment.

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at March 31, 2015 and December 31, 2014. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at March 31, 2015, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We have evaluated the near-term prospects of the issuers of our fixed maturity securities in relation to the severity and duration of the unrealized loss, and unless otherwise noted, these losses did not warrant the recognition of an OTTI charge at March 31, 2015 or at March 31, 2014. We believe the unrealized depreciation in value of other securities in our fixed maturity portfolio is primarily attributable to changes in market interest rates and not the credit quality of the issuer. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal to our cost basis or the securities mature.

We have evaluated the near-term prospects of the issuers of our equity securities in relation to the severity and duration of the unrealized loss, and unless otherwise noted, these losses do not warrant the recognition of an OTTI charge at March 31, 2015. Our largest unrealized loss greater than 12 months on an individual equity security at March 31, 2015 was $49. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

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| March 31, 2015 | Less than 12 months | | | 12 months or longer | | | Total | |
|---|---|---|---|---|---|---|---|---|
| Type of Investment | Number of Issues | Fair Value | Gross Unrealized Depreciation | Number of Issues | Fair Value | Gross Unrealized Depreciation | Fair Value | Gross Unrealized Depreciation |
| AVAILABLE-FOR-SALE | | | | | | | | |
| Fixed maturities: | | | | | | | | |
| Bonds | | | | | | | | |
| U.S. Treasury | 2 | $3,428 | $ 1 | 2 | $1,663 | $ 5 | $5,091 | $ 6 |
| U.S. government agency | 16 | 40,258 | 216 | 7 | 22,085 | 366 | 62,343 | 582 |
| States, municipalities and political subdivisions | 49 | 55,259 | 510 | 15 | 10,927 | 212 | 66,186 | 722 |
| Foreign bonds | 6 | 13,685 | 468 | — | — | — | 13,685 | 468 |
| Public utilities | 5 | 8,581 | 81 | 3 | 2,111 | 147 | 10,692 | 228 |
| Corporate bonds | | | | | | | | |
| Energy | 6 | 12,156 | 261 | 3 | 7,211 | 206 | 19,367 | 467 |
| Industrials | 8 | 18,037 | 161 | 2 | 6,536 | 1,495 | 24,573 | 1,656 |
| Consumer goods and services | 4 | 12,273 | 170 | 4 | 2,517 | 5 | 14,790 | 175 |
| Health care | 2 | 7,052 | 4 | 2 | 3,895 | 25 | 10,947 | 29 |
| Technology, media and telecommunications | 1 | 3,194 | 8 | 2 | 9,187 | 337 | 12,381 | 345 |
| Financial services | 1 | 2,204 | 1 | — | — | — | 2,204 | 1 |
| Mortgage-backed securities | 4 | 168 | 11 | — | — | — | 168 | 11 |
| Collateralized mortgage obligations | 14 | 20,680 | 268 | 39 | 83,994 | 2,053 | 104,674 | 2,321 |
| Total Available-for-Sale Fixed Maturities | 118 | $196,975 | $ 2,160 | 79 | $150,126 | $ 4,851 | $347,101 | $ 7,011 |
| Equity securities: | | | | | | | | |
| Common stocks | | | | | | | | |
| Public utilities | 3 | $246 | $ 62 | — | $— | $ — | $246 | $ 62 |
| Energy | 1 | 179 | 7 | — | — | — | 179 | 7 |
| Industrials | 3 | 237 | 112 | 2 | 63 | 50 | 300 | 162 |
| Consumer goods and services | — | — | — | 2 | 16 | 1 | 16 | 1 |
| Technology, media and telecommunications | 7 | 521 | 17 | 2 | 229 | 11 | 750 | 28 |
| Financial services | 1 | 194 | 43 | — | — | — | 194 | 43 |
| Total Available-for-Sale Equity Securities | 15 | $1,377 | $ 241 | 6 | $308 | $ 62 | $1,685 | $ 303 |
| Total Available-for-Sale Securities | 133 | $198,352 | $ 2,401 | 85 | $150,434 | $ 4,913 | $348,786 | $ 7,314 |

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| December 31, 2014 | Less than 12 months | | | 12 months or longer | | | Total | |
|---|---|---|---|---|---|---|---|---|
| Type of Investment | Number of Issues | Fair Value | Gross Unrealized Depreciation | Number of Issues | Fair Value | Gross Unrealized Depreciation | Fair Value | Gross Unrealized Depreciation |
| AVAILABLE-FOR-SALE | | | | | | | | |
| Fixed maturities: | | | | | | | | |
| Bonds | | | | | | | | |
| U.S. Treasury | 4 | $2,343 | $ 6 | 4 | $5,069 | $ 46 | $7,412 | $ 52 |
| U.S. government agency | 11 | 41,064 | 70 | 35 | 95,198 | 2,352 | 136,262 | 2,422 |
| States, municipalities and political subdivisions | 18 | 30,859 | 185 | 62 | 50,847 | 557 | 81,706 | 742 |
| Foreign bonds | 6 | 17,158 | 446 | — | — | — | 17,158 | 446 |
| Public utilities | 10 | 21,839 | 194 | 4 | 3,611 | 294 | 25,450 | 488 |
| Corporate bonds | | | | | | | | |
| Energy | 8 | 17,416 | 420 | 3 | 7,061 | 373 | 24,477 | 793 |
| Industrials | 8 | 17,103 | 362 | 3 | 9,592 | 1,792 | 26,695 | 2,154 |
| Consumer goods and services | 11 | 28,344 | 258 | 7 | 10,064 | 66 | 38,408 | 324 |
| Health care | 3 | 8,244 | 36 | 3 | 7,104 | 174 | 15,348 | 210 |
| Technology, media and telecommunications | 4 | 8,860 | 68 | 4 | 15,742 | 731 | 24,602 | 799 |
| Financial services | 3 | 5,908 | 31 | 2 | 6,131 | 56 | 12,039 | 87 |
| Mortgage-backed securities | 9 | 425 | 21 | 2 | 1,991 | 25 | 2,416 | 46 |
| Collateralized mortgage obligations | 10 | 20,746 | 112 | 56 | 122,550 | 4,694 | 143,296 | 4,806 |
| Total Available-for-Sale Fixed Maturities | 105 | $220,309 | $ 2,209 | 185 | $334,960 | $ 11,160 | $555,269 | $ 13,369 |
| Equity securities: | | | | | | | | |
| Common stocks | | | | | | | | |
| Public utilities | 3 | $263 | $ 44 | — | $— | $ — | $263 | $ 44 |
| Industrials | 3 | 280 | 70 | 2 | 58 | 54 | 338 | 124 |
| Consumer goods and services | 1 | 129 | 272 | 2 | 15 | 3 | 144 | 275 |
| Technology, media and telecommunications | 4 | 503 | 14 | 5 | 218 | 44 | 721 | 58 |
| Financial services | 1 | 186 | 51 | — | — | — | 186 | 51 |
| Nonredeemable preferred stocks | — | — | — | 1 | 700 | 7 | 700 | 7 |
| Total Available-for-Sale Equity Securities | 12 | $1,361 | $ 451 | 10 | $991 | $ 108 | $2,352 | $ 559 |
| Total Available-for-Sale Securities | 117 | $221,670 | $ 2,660 | 195 | $335,951 | $ 11,268 | $557,621 | $ 13,928 |

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NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Current accounting guidance on fair value measurements includes the application of a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Our financial instruments that are recorded at fair value are categorized into a three-level hierarchy, which is based upon the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (i.e., Level 1) and the lowest priority to unobservable inputs (i.e., Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the financial instrument. Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

- Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.
- Level 2: Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.
- Level 3: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

We review our fair value hierarchy categorizations on a quarterly basis at which time the classification of certain financial instruments may change if the input observations have changed. Transfers between levels, if any, are recorded as of the beginning of the reporting period.

To determine the fair value of the majority of our investments, we utilize prices obtained from independent, nationally recognized pricing services. We obtain one price for each security. When the pricing services cannot provide a determination of fair value for a specific security, we obtain non-binding price quotes from broker-dealers with whom we have had several years experience and who have demonstrated knowledge of the subject security. We request and utilize one broker quote per security.

We validate the prices obtained from independent pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. Our validation process includes a review for unusual fluctuations. In our opinion, the pricing obtained at March 31, 2015 and December 31, 2014 was reasonable.

In order to determine the proper classification in the fair value hierarchy for each security where the price is obtained from an independent pricing service, we obtain and evaluate the vendors' pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities, such as a New York Stock Exchange closing price, and quoted prices for identical securities in markets that are not active. For fixed maturity securities, an evaluation of interest rates and yield curves observable at commonly quoted intervals, volatility, prepayment speeds, credit risks and default rates may also be performed. We have determined that these processes and inputs result in fair values and classifications consistent with the applicable accounting guidance on fair value measurements.

We estimate the fair value of our financial instruments based on relevant market information or by discounting estimated future cash flows at estimated current market discount rates appropriate to the specific asset or liability. When possible, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base estimates of fair value on market information obtained from independent pricing services and brokers or on valuation techniques that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may

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reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument. Our valuation techniques are discussed in more detail throughout this section.
The fair value of our mortgage loans is determined by modeling performed by us based on the stated principal and coupon payments provided for in the loan agreements. These cash flows are then discounted using an appropriate risk-adjusted discount rate to determine the security's fair value, which is a Level 3 fair value measurement.
The fair value of our policy loans is equivalent to carrying value, which is a reasonable estimate of fair value and are classified as Level 2. We do not make policy loans for amounts in excess of the cash surrender value of the related policy. In all instances, the policy loans are fully collateralized by the related liability for future policy benefits for traditional insurance policies or by the policyholders' account balance for non-traditional policies.
Our other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. The fair value of the partnerships is obtained from the fund managers, which is based on the fair value of the underlying investments held in the partnerships. In management's opinion, these values represent a reasonable estimate of fair value. We have not adjusted the net asset value provided by the fund managers.
For cash and cash equivalents and accrued investment income, carrying value is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

Policy reserves are developed and recorded for deferred annuities, which is an interest-sensitive product, and income annuities. The fair value of the reserve liability for these annuity products is based upon an estimate of the discounted pretax cash flows that are forecast for the underlying business, which is a Level 3 fair value measurement. We base the discount rate on the current U.S. Treasury spot yield curve, which is then risk-adjusted for nonperformance risk and, for interest-sensitive business, market risk factors. The risk-adjusted discount rate is developed using interest rates that are available in the market and representative of the risks applicable to the underlying business.

A summary of the carrying value and estimated fair value of our financial instruments at March 31, 2015 and December 31, 2014 is as follows:

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Assets | | | | |
| Investments | | | | |
| Fixed maturities: | | | | |
| Held-to-maturity securities | $370 | $366 | $404 | $397 |
| Available-for-sale securities | 2,817,955 | 2,817,955 | 2,843,079 | 2,843,079 |
| Trading securities | 16,793 | 16,793 | 16,862 | 16,862 |
| Equity securities: | | | | |
| Available-for-sale securities | 243,551 | 243,551 | 245,843 | 245,843 |
| Trading securities | 3,746 | 3,746 | 4,066 | 4,066 |
| Mortgage loans | 4,500 | 4,141 | 4,559 | 4,199 |
| Policy loans | 5,792 | 5,792 | 5,916 | 5,916 |
| Other long-term investments | 47,059 | 47,059 | 50,424 | 50,424 |
| Short-term investments | 175 | 175 | 175 | 175 |
| Cash and cash equivalents | 111,320 | 111,320 | 90,574 | 90,574 |
| Corporate-owned life insurance | 1,072 | 1,072 | 918 | 918 |
| Liabilities | | | | |
| Policy reserves | | | | |
| Annuity (accumulations) (1) | $848,649 | $832,330 | $865,802 | $863,606 |
| Annuity (benefit payments) | 133,182 | 95,780 | 176,592 | 99,121 |

(1) Annuity accumulations represent deferred annuity contracts that are currently earning interest.

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The following tables present the categorization for our financial instruments measured at fair value on a recurring basis in our Consolidated Balance Sheets at March 31, 2015 and December 31, 2014:

| March 31, 2015 | | Fair Value Measurements | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| AVAILABLE-FOR-SALE | | | | |
| Fixed maturities: | | | | |
| Bonds | | | | |
| U.S. Treasury | $21,071 | $— | $21,071 | $— |
| U.S. government agency | 306,391 | — | 306,391 | — |
| States, municipalities and political subdivisions | 794,705 | — | 794,186 | 519 |
| Foreign bonds | 129,687 | — | 129,687 | — |
| Public utilities | 218,513 | — | 218,513 | — |
| Corporate bonds | | | | |
| Energy | 120,613 | — | 120,613 | — |
| Industrials | 211,989 | — | 211,989 | — |
| Consumer goods and services | 178,722 | — | 177,354 | 1,368 |
| Health care | 93,685 | — | 93,685 | — |
| Technology, media and telecommunications | 134,547 | — | 134,547 | — |
| Financial services | 231,742 | — | 220,911 | 10,831 |
| Mortgage-backed securities | 16,842 | — | 16,842 | — |
| Collateralized mortgage obligations | 354,297 | — | 354,297 | — |
| Asset-backed securities | 5,151 | — | 3,658 | 1,493 |
| Total Available-for-Sale Fixed Maturities | $2,817,955 | $— | $2,803,744 | $14,211 |
| Equity securities: | | | | |
| Common stocks | | | | |
| Public utilities | $19,082 | $19,082 | $— | $— |
| Energy | 13,567 | 13,567 | — | — |
| Industrials | 47,010 | 47,008 | 2 | — |
| Consumer goods and services | 23,496 | 23,496 | — | — |
| Health care | 29,959 | 29,959 | — | — |
| Technology, media and telecommunications | 13,110 | 13,110 | — | — |
| Financial services | 92,136 | 88,084 | 74 | 3,978 |
| Nonredeemable preferred stocks | 5,191 | 565 | 4,626 | — |
| Total Available-for-Sale Equity Securities | $243,551 | $234,871 | $4,702 | $3,978 |
| Total Available-for-Sale Securities | $3,061,506 | $234,871 | $2,808,446 | $18,189 |
| TRADING | | | | |
| Fixed maturities: | | | | |
| Corporate bonds | | | | |
| Industrials | $3,836 | $— | $3,836 | $— |
| Consumer goods and services | 115 | — | 115 | — |

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| | | | | |
|---|---|---|---|---|
| Health care | 2,339 | — | 2,339 | — |
| Technology, media and telecommunications | 318 | — | 318 | — |
| Financial services | 5,693 | — | 5,693 | — |
| Redeemable preferred stocks | 4,492 | 4,492 | — | — |
| Equity securities: | | | | |
| Energy | 395 | 395 | — | — |
| Consumer goods and services | 1,081 | 1,081 | — | — |
| Health care | 331 | 331 | — | — |
| Technology, media and telecommunications | 353 | 353 | — | — |
| Nonredeemable preferred stocks | 1,586 | 1,586 | — | — |
| Total Trading Securities | $20,539 | $8,238 | $12,301 | $— |
| Short-Term Investments | $175 | $175 | $— | $— |
| Money Market Accounts | $46,075 | $46,075 | $— | $— |
| Corporate-Owned Life Insurance | $1,072 | $— | $1,072 | $— |
| Total Assets Measured at Fair Value | $3,129,367 | $289,359 | $2,821,819 | $18,189 |

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| December 31, 2014 | | Fair Value Measurements | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| AVAILABLE-FOR-SALE | | | | |
| Fixed maturities: | | | | |
| Bonds | | | | |
| U.S. Treasury | $25,972 | $— | $25,972 | $— |
| U.S. government agency | 351,672 | — | 351,672 | — |
| States, municipalities and political subdivisions | 778,285 | — | 777,766 | 519 |
| Foreign bonds | 140,173 | — | 140,173 | — |
| Public utilities | 212,357 | — | 212,357 | — |
| Corporate bonds | | | | |
| Energy | 137,133 | — | 137,133 | — |
| Industrials | 215,475 | — | 215,475 | — |
| Consumer goods and services | 177,001 | — | 175,682 | 1,319 |
| Health care | 89,035 | — | 89,035 | — |
| Technology, media and telecommunications | 134,529 | — | 134,529 | — |
| Financial services | 223,582 | — | 212,589 | 10,993 |
| Mortgage-backed securities | 17,558 | — | 17,558 | — |
| Collateralized mortgage obligations | 337,289 | — | 337,289 | — |
| Asset-backed securities | 3,018 | — | 1,406 | 1,612 |
| Total Available-for-Sale Fixed Maturities | $2,843,079 | $— | $2,828,636 | $14,443 |
| Equity securities: | | | | |
| Common stocks | | | | |
| Public utilities | $20,290 | $20,290 | $— | $— |
| Energy | 13,717 | 13,717 | — | — |
| Industrials | 45,459 | 45,458 | 1 | — |
| Consumer goods and services | 23,314 | 23,314 | — | — |
| Health care | 30,356 | 30,356 | — | — |
| Technology, media and telecommunications | 13,995 | 13,995 | — | — |
| Financial services | 93,663 | 89,719 | 72 | 3,872 |
| Nonredeemable preferred stocks | 5,049 | 558 | 4,491 | — |
| Total Available-for-Sale Equity Securities | $245,843 | $237,407 | $4,564 | $3,872 |
| Total Available-for-Sale Securities | $3,088,922 | $237,407 | $2,833,200 | $18,315 |
| TRADING | | | | |
| Fixed maturities: | | | | |
| Bonds | | | | |
| Corporate bonds | | | | |
| Industrials | $3,352 | $— | $3,352 | $— |
| Health care | 2,425 | — | 2,425 | — |
| Technology, media and telecommunications | 338 | — | 338 | — |
| Financial services | 5,997 | — | 5,997 | — |
| Redeemable preferred stocks | 4,750 | 4,750 | — | — |

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| | | | | |
|---|---|---|---|---|
| Equity securities: | | | | |
| Energy | 411 | 411 | — | — |
| Consumer goods and services | 1,034 | 1,034 | — | — |
| Health care | 327 | 327 | — | — |
| Technology, media and telecommunications | 411 | 411 | — | — |
| Nonredeemable preferred stocks | 1,883 | 1,883 | — | — |
| Total Trading Securities | $20,928 | $8,816 | $12,112 | $— |
| Short-Term Investments | $175 | $175 | $— | $— |
| Money Market Accounts | $28,095 | $28,095 | $— | $— |
| Corporate-Owned Life Insurance | $918 | $— | $918 | $— |
| Total Assets Measured at Fair Value | $3,139,038 | $274,493 | $2,846,230 | $18,315 |

The fair value of securities that are categorized as Level 1 is based on quoted market prices that are readily and regularly available.

The fair value of securities that are categorized as Level 2 is determined by management after reviewing non-binding fair value quotes obtained from independent pricing services and brokers. These fair value quotes are corroborated by other market observable data. Such estimated fair values do not necessarily represent the values for which these securities could have been sold at the reporting date.

For the three-month period ended March 31, 2015, the change in our available-for-sale securities categorized as Level 1 and Level 2 is the result of investment purchases that were made using funds held in our money market accounts, disposals and the change in unrealized gains on both fixed maturities and equity securities. During the three-month period ended March 31, 2015, there were no securities transferred between Level 1 and Level 2.

Securities categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities for which an active market does not currently exist. The fair value of our Level 3 private placement securities is determined by management relying on pricing received from our independent pricing services and brokers consistent with the process to estimate fair value for Level 2 securities. However, securities are categorized as Level 3 if these quotes cannot be corroborated by other market observable data due to the unobservable nature of the brokers' valuation processes. If pricing cannot be obtained from these sources, which occurs on a limited basis, management will perform a discounted cash flow analysis, using an appropriate risk-adjusted discount rate, on the underlying security to estimate fair value.

The following table provides a summary of the changes in fair value of our Level 3 securities for the three-month period ended March 31, 2015:

| | States, municipalities and political subdivisions | Corporate bonds | Asset-backed securities | Equities | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2015 | $519 | $12,312 | $1,612 | $3,872 | $18,315 |
| Net unrealized gains (losses)(1) | — | 182 | 8 | — | 190 |
| Purchases | — | — | — | 121 | 121 |
| Disposals | — | (295) | (127) | (15) | (437) |
| Balance at March 31, 2015 | $519 | $12,199 | $1,493 | $3,978 | $18,189 |

(1) Unrealized gains are recorded as a component of comprehensive income.

The fixed maturities reported as disposals relate to the receipt of principal on calls or sinking fund bonds, in accordance with the indentures.

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Corporate-Owned Life Insurance

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Non-qualified Deferred Compensation Plan and United Fire Group Supplemental Executive Retirement and Deferral Plan (collectively the "Executive Retirement Plans"). Within the rabbi trust, corporate-owned life insurance ("COLI") policies are utilized as an investment vehicle and source of funding for the Company's Executive Retirement Plans. The COLI policies invest in mutual funds, which are priced daily by independent sources. As of March 31, 2015, the cash surrender value of the COLI policies was $1,072, which is equal to the fair value measured using Level 2 inputs, based on the underlying assets of the COLI policies, and is included in other assets in the Consolidated Balance Sheets.

NOTE 4. EMPLOYEE BENEFITS

Net Periodic Benefit Cost

The components of the net periodic benefit cost for our pension and postretirement benefit plans are as follows:

| | Pension Plan | | Postretirement Benefit Plan | |
|---|---|---|---|---|
| Three Months Ended March 31, | 2015 | 2014 | 2015 | 2014 |
| Net periodic benefit cost | | | | |
| Service cost | $1,669 | $1,303 | $1,305 | $924 |
| Interest cost | 1,500 | 1,468 | 713 | 586 |
| Expected return on plan assets | (1,950) | (1,739) | — | — |
| Amortization of net loss | 1,136 | 544 | 731 | 224 |
| Net periodic benefit cost | $2,355 | $1,576 | $2,749 | $1,734 |

Employer Contributions

We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 that we expected to contribute $6,352 to the pension plan in 2015. For the three-month period ended March 31, 2015, we contributed $1,565 to the pension plan. We anticipate that the total contribution in 2015 will not vary significantly from our expected contribution.

NOTE 5. STOCK-BASED COMPENSATION

Non-qualified Employee Stock Award Plan

The United Fire Group, Inc. 2008 Stock Plan (the "2008 Stock Plan") authorized the issuance of restricted and unrestricted stock awards, stock appreciation rights, incentive stock options, and non-qualified stock options for up to 1,900,000 shares of United Fire common stock to employees. In May 2014, the Registrant's shareholders approved an additional 1,500,000 shares of United Fire common stock issuable at any time and from time to time pursuant to the Stock Plan, United Fire Group, Inc. Stock Plan, which amended and restated the 2008 Stock Plan (as amended, the "Stock Plan"). At March 31, 2015, there are 1,382,693 authorized shares remaining available for future issuance. The Stock Plan is administered by the Board of Directors, which determines those employees who will receive awards, when awards will be granted, and the terms and conditions of the awards. The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Stock Plan. Pursuant to the Stock Plan, the Board of Directors may, at its sole discretion, grant awards to our employees who are in positions of substantial responsibility with United Fire.

Options granted pursuant to the Stock Plan are granted to buy shares of United Fire's common stock at the market value of the stock on the date of grant. All outstanding option awards vest and are exercisable in installments of 20.0

percent of the number of shares covered by the option award each year from the grant date, unless the Board of Directors authorizes the acceleration of vesting. To the extent not exercised, vested option awards accumulate and

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are exercisable by the awardee, in whole or in part, in any subsequent year included in the option period, but not later than 10 years from the grant date. Restricted and unrestricted stock awards granted pursuant to the Stock Plan are granted at the market value of our common stock on the date of the grant. Restricted stock awards fully vest after 5 years from the date of issuance, unless accelerated upon the approval of the Board of Directors, at which time United Fire common stock will be issued to the awardee. All awards are generally granted free of charge to the eligible employees of United Fire as designated by the Board of Directors.

The activity in the Stock Plan is displayed in the following table:

| Authorized Shares Available for Future Award Grants | Three Months Ended March 31, 2015 | | From Inception to March 31, 2015 | |
|---|---|---|---|---|
| Beginning balance | 1,646,947 | | 1,900,000 | |
| Additional shares authorized | — | | 1,500,000 | |
| Number of awards granted | (362,854 | ) | (2,359,363 | ) |
| Number of awards forfeited or expired | 98,600 | | 342,056 | |
| Ending balance | 1,382,693 | | 1,382,693 | |
| Number of option awards exercised | 23,724 | | 491,287 | |
| Number of unrestricted stock awards granted | — | | 5,280 | |
| Number of restricted stock awards vested | — | | 18,576 | |

Non-qualified Non-employee Director Stock Option and Restricted Stock Plan

The United Fire Group, Inc. 2005 Non-Qualified Non-Employee Director Stock Option and Restricted Stock Plan (the "Director Plan") authorizes the issuance of restricted stock awards and non-qualified stock options to purchase shares of United Fire's common stock to non-employee directors. At March 31, 2015, we had 87,194 authorized shares available for future issuance.

The Board of Directors has the authority to determine which non-employee directors receive awards, when options and restricted stock shall be granted, the option price, the option expiration date, the date of grant, the vesting schedule of options or whether the options shall be immediately vested, the terms and conditions of options and restricted stock (other than those terms and conditions set forth in the Director Plan) and the number of shares of common stock to be issued pursuant to an option agreement or restricted stock agreement (subject to limits set forth in the Director Plan). The Board of Directors may also take any action it deems necessary and appropriate for the administration of the Director Plan.

The activity in the Director Plan is displayed in the following table:

| Authorized Shares Available for Future Award Grants | Three Months Ended March 31, 2015 | From Inception to March 31, 2015 | |
|---|---|---|---|
| Beginning balance | 87,194 | 300,000 | |
| Number of awards granted | — | (218,809 | ) |
| Number of awards forfeited or expired | — | 6,003 | |
| Ending balance | 87,194 | 87,194 | |
| Number of option awards exercised | 547 | 5,222 | |
| Number of restricted stock awards vested | — | 11,442 | |

Stock-Based Compensation Expense

For the three-month periods ended March 31, 2015 and 2014, we recognized stock-based compensation expense of $553 and $437, respectively. Stock-based compensation expense is recognized over the vesting period of the stock options.

As of March 31, 2015, we had $7,270 in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized over the remainder of 2015 and subsequent years according to the following table, except with respect to awards that are accelerated by the Board of Directors,

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in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

| | |
|---|---|
| 2015 | $1,740 |
| 2016 | 1,929 |
| 2017 | 1,690 |
| 2018 | 1,269 |
| 2019 | 581 |
| 2020 | 61 |
| Total | $7,270 |

NOTE 6. SEGMENT INFORMATION

We have two reportable business segments in our operations: property and casualty insurance and life insurance. The property and casualty insurance segment has seven domestic locations from which it conducts its business. The life insurance segment operates from our home office. Because all of our insurance is sold domestically, we have no revenues from foreign operations.

We evaluate the two segments on the basis of both statutory accounting principles prescribed or permitted by our states of domicile and GAAP. We analyze results based on profitability (i.e., loss ratios), expenses, and return on equity. The basis we use to determine and analyze segments and to measure segment profit or loss have not changed from that reported in our Annual Report on Form 10-K for the year ended December 31, 2014.

We have reconciled the amounts in the following table for the three-month periods ended March 31, 2015 and 2014 to the amounts reported in our unaudited Consolidated Financial Statements, adjusting for intersegment eliminations.

| | Property and Casualty Insurance | Life Insurance | Total |
|---|---|---|---|
| Three Months Ended March 31, 2015 | | | |
| Net premiums earned | $200,137 | $13,228 | $213,365 |
| Investment income, net of investment expenses | 10,730 | 13,616 | 24,346 |
| Net realized investment gains (losses) | (239) | 1,126 | 887 |
| Other income | — | 63 | 63 |
| Total reportable segment | $210,628 | $28,033 | $238,661 |
| Intersegment eliminations | 17 | (194) | (177) |
| Total revenues | $210,645 | $27,839 | $238,484 |
| Net income | $23,103 | $576 | $23,679 |
| Assets | $2,166,432 | $1,697,819 | $3,864,251 |
| Invested assets | $1,562,710 | $1,576,868 | $3,139,578 |
| | | | |
| Three Months Ended March 31, 2014 | | | |
| Net premiums earned | $179,494 | $13,980 | $193,474 |
| Investment income, net of investment expenses | 11,113 | 15,599 | 26,712 |
| Net realized investment gains | 1,367 | 827 | 2,194 |
| Other income | 480 | 127 | 607 |
| Total reportable segment | $192,454 | $30,533 | $222,987 |
| Intersegment eliminations | 50 | (133) | (83) |
| Total revenues | $192,504 | $30,400 | $222,904 |
| Net income | $11,811 | $1,520 | $13,331 |
| Assets | $2,032,501 | $1,736,748 | $3,769,249 |

| | | | |
|---|---|---|---|
| Invested assets | $1,486,783 | $1,628,951 | $3,115,734 |

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NOTE 7. EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share gives effect to all dilutive common shares outstanding during the reporting period. The dilutive shares we consider in our diluted earnings per share calculation relate to our outstanding stock options and restricted stock awards.

We determine the dilutive effect of our outstanding stock options using the "treasury stock" method. Under this method, we assume the exercise of all of the outstanding stock options whose exercise price is less than the weighted-average market value of our common stock during the reporting period. This method also assumes that the proceeds from the hypothetical stock option exercises are used to repurchase shares of our common stock at the weighted-average market value of the stock during the reporting period. The net of the assumed stock options exercised and assumed common shares repurchased represents the number of dilutive common shares, which we add to the denominator of the earnings per share calculation.

The components of basic and diluted earnings per share were as follows for the three-month periods ended March 31, 2015 and 2014:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (In Thousands Except Share Data) | 2015 | | 2014 | |
| | Basic | Diluted | Basic | Diluted |
| Net income | $23,679 | $23,679 | $13,331 | $13,331 |
| Weighted-average common shares outstanding | 24,990,470 | 24,990,470 | 25,372,280 | 25,372,280 |
| Add dilutive effect of restricted stock awards | — | 114,313 | — | 102,635 |
| Add dilutive effect of stock options | — | — | — | 115,292 |
| Weighted-average common shares | 24,990,470 | 25,104,783 | 25,372,280 | 25,590,207 |
| Earnings per common share | $0.95 | $0.94 | $0.53 | $0.52 |
| Awards excluded from diluted earnings per share calculation(1) | — | 697,950 | — | 908,480 |

(1) Outstanding awards that are not "in-the-money" are excluded from the diluted earnings per share calculation because the effect of including them would have been anti-dilutive.

NOTE 8. CREDIT FACILITY

In December 2011, United Fire entered into a credit agreement with a syndicate of financial institutions as lenders. KeyBank National Association is the administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company is the syndication agent. The four-year credit agreement provides for a $100,000 unsecured revolving credit facility that includes a $20,000 letter of credit subfacility and a swingline subfacility of up to $5,000.

On June 4, 2013, United Fire & Casualty Company, United Fire Group, Inc. and the syndicated lenders entered into an Assignment, Joinder, Assumption, and Release Agreement (the "Joinder Agreement") transferring the obligations under the credit agreement from United Fire & Casualty Company to United Fire Group, Inc. Effective with the execution of the Joinder Agreement, United Fire & Casualty Company was released from any further obligations under the credit agreement.

During the term of this credit agreement, we have the right to increase the total credit facility from $100,000 up to $125,000 if no event of default has occurred and is continuing and certain other conditions are satisfied. The credit facility is available for general corporate purposes, including working capital, acquisitions and liquidity purposes. Any principal outstanding under the credit facility is due in full at maturity, on December 22, 2015. The interest rate is based on our monthly choice of either a base rate or the London Interbank Offered Rate ("LIBOR") plus, in each case, a calculated margin amount. A commitment fee on each lender's unused commitment under the credit facility is also payable quarterly.

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The credit agreement contains customary representations, covenants and events of default, including certain covenants that limit or restrict our ability to engage in certain activities. Subject to certain exceptions, these activities include restricting our ability to sell or transfer assets or enter into a merger or consolidate with another company, grant certain types of security interests, incur certain types of liens, impose restrictions on subsidiary dividends, enter into leaseback transactions, or incur certain indebtedness. The credit agreement contains certain financial covenants, including covenants that require us to maintain a minimum consolidated net worth, a debt to capitalization ratio and minimum shareholders' equity.

There was no outstanding balance on the credit facility at March 31, 2015 and 2014. For the three-month periods ended March 31, 2015 and 2014, we did not incur any interest expense related to this credit facility. We were in compliance with all covenants for the credit agreement at March 31, 2015.

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table shows the changes in the components of our accumulated other comprehensive income (loss), net of tax, for the three-month period ended March 31, 2015:

| | Net unrealized appreciation on investments | Liability for underfunded employee benefit costs | Total |
|---|---|---|---|
| Balance as of January 1, 2015 | $149,623 | $(58,450) | $91,173 |
| Change in accumulated other comprehensive income before reclassifications | 8,524 | — | 8,524 |
| Reclassification adjustments from accumulated other comprehensive income (loss) | (1,232) | 1,214 | (18) |
| Balance as of March 31, 2015 | $156,915 | $(57,236) | $99,679 |

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Review Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
United Fire Group, Inc.

We have reviewed the consolidated balance sheet of United Fire Group, Inc. (the "Company") as of March 31, 2015, and the related consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2015 and 2014, the consolidated statements of cash flows for the three-month periods ended March 31, 2015 and 2014, and the consolidated statement of stockholders' equity for the three-month period ended March 31, 2015. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Fire Group, Inc. as of December 31, 2014, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 2, 2015. In our opinion, the accompanying consolidated balance sheet of United Fire Group, Inc. as of December 31, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
Ernst & Young LLP

Des Moines, Iowa
May 5, 2015

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Part I, Item 1 "Financial Statements."

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are representative of significant judgments and uncertainties and that potentially may result in materially different results under different assumptions and conditions. We base our discussion and analysis of our results of operations and financial condition on the amounts reported in our Consolidated Financial Statements, which we have prepared in accordance with GAAP. As we prepare these Consolidated Financial Statements, we must make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the reporting period. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Our critical accounting policies are more fully described in our Management's Discussion and Analysis of Financial Condition and Results of Operations presented in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no changes in our critical accounting policies from December 31, 2014.

INTRODUCTION

The purpose of this Management's Discussion and Analysis is to provide an understanding of our results of operations and consolidated financial position. Our Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and related notes, including those in our Annual Report on Form 10-K for the year ended December 31, 2014. When we provide information on a statutory basis, we label it as such, otherwise, all other data is presented in accordance with GAAP.

OUR BUSINESS

Founded in 1946 as United Fire & Casualty Company, United Fire Group, Inc. ("United Fire", the "Registrant", the "Company", "we", "us", or "our") and its consolidated insurance subsidiaries provide insurance protection for individuals and businesses through several regional offices. Our property and casualty insurance company subsidiaries are licensed in 43 states plus the District of Columbia and are represented by approximately 1,200 independent agencies. Our life insurance subsidiary is licensed in 37 states and is represented by approximately 1,000 independent agencies.

Segments

We operate two business segments, each with a wide range of products:

- property and casualty insurance, which includes commercial lines insurance, personal lines insurance, surety bonds and assumed reinsurance; and

- life insurance, which includes deferred and immediate annuities, universal life products and traditional life (primarily single premium whole life) insurance products.

We manage these business segments separately, as they generally do not share the same customer base, and each has different products, pricing, and expense structures.

For the three-month period ended March 31, 2015, property and casualty insurance business accounted for approximately 94.0 percent of our net premiums earned, of which 91.5 percent was generated from commercial

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lines. Life insurance business accounted for approximately 6.0 percent of our net premiums earned, of which 59.5 percent was generated from traditional life insurance products.

Pooling Arrangement

All of our property and casualty insurance subsidiaries, with the exception of Texas General Indemnity Company, are members of an intercompany reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant’s own surplus level.

Geographic Concentration

For the three-month period ended March 31, 2015, approximately 49.4 percent of our property and casualty premiums were written in Texas, Iowa, California, New Jersey, and Missouri; approximately 77.3 percent of our life insurance premiums were written in Iowa, Wisconsin, Nebraska, Minnesota, and Illinois.

Segment Revenue and Expense

We evaluate segment profit or loss based upon operating and investment results. Segment profit or loss described in the following sections of this Management's Discussion and Analysis is reported on a pre-tax basis. Additional segment information is presented in Part I, Item 1, Note 6 "Segment Information" to the unaudited Consolidated Financial Statements.

Our primary sources of revenue are premiums and investment income. Major categories of expenses include losses and loss settlement expenses, future policy benefits, underwriting and other operating expenses and interest on policyholders' accounts.

Profit Factors

Our profitability is influenced by many factors, including price, competition, economic conditions, investment returns, interest rates, catastrophic events and other natural disasters, man-made disasters, state regulations, court decisions, and changes in the law. To manage these risks and uncertainties, we seek to achieve consistent profitability through strong agency relationships, exceptional customer service, fair and prompt claims handling, disciplined underwriting, superior loss control services, prudent management of our investments, appropriate matching of assets and liabilities, effective use of ceded reinsurance and effective and efficient use of technology.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

| | Three Months Ended March 31, | | |
|---|---|---|---|
| (In Thousands) | 2015 | 2014 | % |
| Revenues | | | |
| Net premiums earned | $213,171 | $193,341 | 10.3 % |
| Investment income, net of investment expenses | 24,363 | 26,762 | (9.0 ) |
| Net realized investment gains | 887 | 2,194 | (59.6 ) |
| Other income | 63 | 607 | (89.6 ) |
| Total revenues | $238,484 | $222,904 | 7.0 % |
| Benefits, Losses and Expenses | | | |
| Losses and loss settlement expenses | $126,409 | $125,237 | 0.9 % |
| Increase in liability for future policy benefits | 7,623 | 7,821 | (2.5 ) |
| Amortization of deferred policy acquisition costs | 42,472 | 39,534 | 7.4 |
| Other underwriting expenses | 23,534 | 26,428 | (11.0 ) |
| Interest on policyholders' accounts | 6,615 | 7,987 | (17.2 ) |
| Total benefits, losses and expenses | $206,653 | $207,007 | (0.2 )% |
| Income before income taxes | $31,831 | $15,897 | 100.2 % |
| Federal income tax expense | 8,152 | 2,566 | 217.7 |
| Net income | $23,679 | $13,331 | 77.6 % |

The following is a summary of our financial performance for the three-month period ended March 31, 2015:

Consolidated Results of Operations

For the three-month period ended March 31, 2015, net income was $23.7 million compared to $13.3 million for the same period of 2014, driven primarily by an increase in net premiums earned partially offset by a decrease in investment income. Consolidated net premiums earned increased to $213.2 million compared to $193.3 million for the same period of 2014. This increase represents organic growth and is the result of a combination of rate increases and, to a lesser extent, new business writings.

Losses and loss settlement expenses increased by $1.2 million during the three-month period ended March 31, 2015 compared to the same period of 2014. The increase is attributable to organic growth. The net loss ratio decreased by 6.5 percentage points during the three-month period ended March 31, 2015 compared to the same period of 2014. Pre-tax catastrophe losses totaled $0.2 million compared to $3.3 million in the same period of 2014.

Investment income decreased by $2.4 million during the three-month period ended March 31, 2015 compared to the same period of 2014. The decrease is due to the decline of reinvestment interest rates from the continued low interest rate environment and secondarily to the change in value of our investments in limited liability partnerships. We hold certain investments in limited liability partnerships that are recorded on the equity method of accounting, with changes in the value of these investments recorded in investment income.

Consolidated Financial Condition

At March 31, 2015, the book value per share of our common stock was $33.76. We repurchased 37,637 shares of our common stock at a total cost of $1.1 million and an average share price of $28.78 in the three-month period ended March 31, 2015. Under our share repurchase program, which is scheduled to expire on August 31, 2016, we are authorized to repurchase an additional 1,570,645 shares of our common stock.

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Net unrealized investment gains totaled $156.9 million as of March 31, 2015, an increase of $7.3 million, net of tax, or 4.9 percent, since December 31, 2014. The increase in net unrealized investment gains resulted from an increase in the fair value of the fixed maturity investment portfolio as a result of interest rate declines at March 31, 2015 partially offset by a decrease in the fair value of our equity investment portfolio.

Our stockholders' equity increased to $844.2 million at March 31, 2015, from $817.4 million at December 31, 2014. The increase was primarily attributable to net income of $23.7 million and an increase in net unrealized investment gains of $7.3 million, net of tax, partially offset by shareholder dividends of $5.0 million and share repurchases of $1.1 million.

RESULTS OF OPERATIONS

Property and Casualty Insurance Segment Results

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (In Thousands Except Ratios) | 2015 | | 2014 | |
| Net premiums written | $219,378 | | $199,329 | |
| Net premiums earned | $200,137 | | $179,494 | |
| Losses and loss settlement expenses | (119,338 | ) | (118,656 | ) |
| Amortization of deferred policy acquisition costs | (40,809 | ) | (37,876 | ) |
| Other underwriting expenses | (19,404 | ) | (22,260 | ) |
| Underwriting gain | $20,586 | | $702 | |
| | | | | |
| Investment income, net of investment expenses | 10,747 | | 11,163 | |
| Net realized investment gains (losses) | (239 | ) | 1,367 | |
| Other income | — | | 480 | |
| Income before income taxes | $31,094 | | $13,712 | |
| | | | | |
| GAAP Ratios: | | | | |
| Net loss ratio (without catastrophes) | 59.5 | % | 64.3 | % |
| Catastrophes - effect on net loss ratio | 0.1 | | 1.8 | |
| Net loss ratio(1) | 59.6 | % | 66.1 | % |
| Expense ratio(2) | 30.1 | | 33.5 | |
| Combined ratio(3) | 89.7 | % | 99.6 | % |

(1) The net loss ratio is calculated by dividing the sum of losses and loss settlement expenses by net premiums earned. We use the net loss ratio as a measure of the overall underwriting profitability of the insurance business we write and to assess the adequacy of our pricing. Our net loss ratio is meaningful in evaluating our financial results as reported in our unaudited Consolidated Financial Statements.
(2) The expense ratio is calculated by dividing nondeferred underwriting expenses and amortization of deferred policy acquisition costs by net premiums earned. The expense ratio measures a company's operational efficiency in producing, underwriting and administering its insurance business.
(3) The combined ratio is a commonly used financial measure of property and casualty underwriting performance. A combined ratio below 100.0 percent generally indicates a profitable book of business. The combined ratio is the sum of the net loss ratio and the underwriting expense ratio.

For the three-month period ended March 31, 2015, our property and casualty segment reported income before taxes of $31.1 million or an increase of $17.4 million compared to the same period of 2014. The increase in the three-month period ended March 31, 2015 was driven primarily by an increase in net premiums earned partially offset by a decrease in investment income and net realized investment losses in the first quarter of the current year as compared to the same period in the prior year.

Net premiums earned increased 11.5 percent to $200.1 million in the three-month period ended March 31, 2015, compared to $179.5 million in the same period of 2014. This increase represents organic growth and is the result of a combination of rate increases and, to a lesser extent, new business writings.

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Investment income decreased 3.7 percent to $10.7 million in the three-month period ended March 31, 2015, compared to $11.2 million in the same period of 2014. The decrease was primarily due to changes in value of our investments in limited liability partnerships and secondarily to the decline of reinvestment interest rates from the continued low interest rate environment. In the three-month period ended March 31, 2015, the change in value of investments in limited liability partnerships resulted in a decrease of $0.4 million to investment income as compared to the same period in the prior year.

The combined ratio decreased 9.9 percentage points to 89.7 percent for the three-month period ended March 31, 2015, compared to 99.6 percent for the same period of 2014. The decrease in the GAAP combined ratio in the three-month period ended March 31, 2015, as compared to the same period of 2014, was primarily attributable to decreases in both the net loss ratio and expense ratio.

The net loss ratio, a component of the combined ratio, decreased by 6.5 percentage points to 59.6 percentage points in the three-month period ended March 31, 2015, as compared to the same period of 2014 primarily due to higher prior year losses. In the first quarter of 2014, we experienced an above average frequency of claims associated with the harsh winter weather in the U.S. and an above average frequency and severity in commercial fire losses. Pre-tax catastrophe losses totaled $0.2 million for the three-month period ended March 31, 2015 as compared to $3.3 million in the same period of 2014.

The expense ratio, a component of the combined ratio, of 30.1 percentage points for the quarter ended March 31, 2015 decreased by 3.4 percentage points as compared with the same period of 2014 primarily due to an improvement in the profitability in certain lines of business, which led to an increase in the amount of underwriting expenses eligible for deferral in our deferred acquisition costs partially offset by an increase in pension and post-retirement benefit costs in the quarter ended March 31, 2015.

For a detailed discussion of our consolidated investment results, refer to the "Investment Portfolio" section of this item.

Reserve Development

For many liability claims, significant periods of time, ranging up to several years and for certain construction defect claims more than a decade, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement or other disposition of the claim. As a result, loss experience in the more recent accident years for the long-tail liability coverages has limited statistical credibility in our reserving process because a relatively small proportion of losses in these accident years are reported claims and an even smaller proportion are paid losses. In addition, long-tail liability claims are more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment. Consequently, the estimation of loss reserves for long-tail coverages is more complex and subject to a higher degree of variability. Reserves for these long-tail coverages represent a significant portion of our overall carried reserves.

When establishing reserves and monitoring reserve adequacy, we analyze historical data and consider the potential impact of various loss development factors and trends including historical loss experience, legislative enactments, judicial decisions, legal developments in imposition of damages, experience with alternative dispute resolution, results of our medical bill review process, the potential impact of salvage and subrogation and changes and trends in general economic conditions, including the effects of inflation. All of these factors influence our estimates of required reserves and for long-tail lines these factors can change over the course of the settlement of the claim. However, there is no precise method for evaluating the specific dollar impact of any individual factor on the development of reserves.

Our reserving philosophy is to reserve claims to their ultimate expected loss amount as soon as practicable after information about a claim becomes available. This approach tends to produce, on average, prudently conservative case reserves, which we expect to result in some level of favorable development over the course of settlement.

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2015 Development

The property and casualty insurance segment experienced $16.7 million of favorable development in our net reserves for prior accident years for the three-month period ended March 31, 2015. Four lines in aggregate accounted for $16.0 million of the total $16.7 million of favorable development. The largest single contributor was workers' compensation with $5.8 million of favorable development followed by long-tail liability with $4.9 million of favorable development, commercial auto liability which had $3.0 million of favorable development and auto physical damage with $2.3 million of favorable development. All four of these lines benefited from reductions in reserves for reported claims as well as reductions in required reserves for incurred but not reported claims primarily due to favorable results from subrogation recoveries and successful management of litigation expenses. These reserve decreases were more than sufficient to offset claim payments.

2014 Development

The property and casualty insurance segment experienced $14.5 million of favorable development in our net reserves for prior accident years for the three-month period ended March 31, 2014. The significant driver of the favorable reserve development in 2014 was our commercial auto liability line which contributed $8.8 million of the total, primarily due to favorable results from loss control and re-underwriting initiatives over the past several months. Also contributing to the favorable development during the three-month period ended March 31, 2014, only to a lesser extent than commercial auto liability, were personal auto liability and auto physical damage which combined for $2.9 million of favorable development. Long-tail liability lines contributed an additional $3.1 million of favorable development. No other line of business contributed a significant portion of the total development.

Development amounts can vary significantly from quarter-to-quarter and year-to-year depending on a number of factors, including the number of claims settled and the settlement terms, and are subject to reallocation between accident years and lines of business. At March 31, 2015, our total reserves remained relatively flat compared to December 31, 2014 and within our actuarial estimates.

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The following tables display our net premiums earned, net losses and loss settlement expenses and net loss ratio by line of business:

| Three Months Ended March 31, | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| (In Thousands) Unaudited | Net Premiums Earned | Net Losses and Loss Settlement Expenses Incurred | Net Loss Ratio | Net Premiums Earned | Net Losses and Loss Settlement Expenses Incurred | Net Loss Ratio |
| Commercial lines | | | | | | |
| Other liability | $60,507 | $32,557 | 53.8 % | $53,153 | $30,670 | 57.7 % |
| Fire and allied lines | 48,111 | 28,702 | 59.7 | 42,887 | 34,658 | 80.8 |
| Automobile | 43,679 | 33,334 | 76.3 | 38,450 | 22,248 | 57.9 |
| Workers' compensation | 23,240 | 11,387 | 49.0 | 21,030 | 18,209 | 86.6 |
| Fidelity and surety | 4,755 | 1,731 | 36.4 | 4,460 | (313) | (7.0) |
| Miscellaneous | 674 | 1 | 0.1 | 664 | 11 | 1.7 |
| Total commercial lines | $180,966 | $107,712 | 59.5 % | $160,644 | $105,483 | 65.7 % |
| | | | | | | |
| Personal lines | | | | | | |
| Fire and allied lines | $10,910 | $6,003 | 55.0 % | $11,032 | $6,855 | 62.1 % |
| Automobile | 5,831 | 3,197 | 54.8 | 5,681 | 4,294 | 75.6 |
| Miscellaneous | 246 | 211 | 85.8 | 244 | 105 | 43.0 |
| Total personal lines | $16,987 | $9,411 | 55.4 % | $16,957 | $11,254 | 66.4 % |
| Reinsurance assumed | $2,184 | $2,215 | 101.4 % | $1,893 | $1,919 | 101.4 % |
| Total | $200,137 | $119,338 | 59.6 % | $179,494 | $118,656 | 66.1 % |

- Commercial fire and allied lines - The net loss ratio improved 21.1 percentage points in the three-month period ended March 31, 2015 compared to the same period of 2014. The change is primarily attributable to higher losses in the prior year. In 2014, there was an increase in the frequency of claims associated with the harsh winter weather experienced in the U.S. in the first quarter of 2014 and an increase in frequency and severity in commercial fire losses.

- Commercial automobile - The net loss ratio deteriorated 18.4 percentage points in the three-month period ended March 31, 2015 compared to the same period of 2014. The change was due to the combined effects of an increase in claim payments and unfavorable reserve development on unpaid claims in 2015 as compared to the prior year.

- Workers' compensation - The net loss ratio improved 37.6 percentage points in the three-month period ended March 31, 2015 compared to the same period of 2014. The change was due to the combined effects of a decrease in severity and frequency of claims and favorable reserve development in 2015 as compared to the prior year.

- Fidelity and surety - The net loss ratio deteriorated 43.4 percentage points in the three-month period ended March 31, 2015 compared to the same period of 2014. The change was primarily due to a single large claim in the first quarter of 2015.

- Personal automobile - The net loss ratio improved 20.8 percentage points in the three-month period ended March 31, 2015 compared to the same period of 2014. The change is primarily attributable to higher losses in the prior year along with favorable reserve development on liability claims in the current year.

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Life Insurance Segment Results

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | 2015 | 2014 |
| Revenues | | |
| Net premiums earned | $13,034 | $13,847 |
| Investment income, net of investment expenses | 13,616 | 15,599 |
| Net realized investment gains | 1,126 | 827 |
| Other income | 63 | 127 |
| Total revenues | $27,839 | $30,400 |
| | | |
| Benefits, Losses and Expenses | | |
| Losses and loss settlement expenses | $7,071 | $6,581 |
| Increase in liability for future policy benefits | 7,623 | 7,821 |
| Amortization of deferred policy acquisition costs | 1,663 | 1,658 |
| Other underwriting expenses | 4,130 | 4,168 |
| Interest on policyholders' accounts | 6,615 | 7,987 |
| Total benefits, losses and expenses | $27,102 | $28,215 |
| | | |
| Income before income taxes | $737 | $2,185 |

Income before income taxes decreased $1.4 million in the three-month period ended March 31, 2015 as compared to the same period of 2014. The decrease in net income is primarily due to a decrease in net premiums earned from lower sales of single premium whole life policies, an increase in losses and loss settlement expenses from higher death benefits and a decrease in investment income, all partially offset by a decrease in the increase in liability for future policy benefits and a decrease in interest on policyholders' accounts due to a decline in the amount of expense associated with the payment of interest to policyholders on annuity accounts.

Net premiums earned decreased 5.9 percent to $13.0 million for the three-month period ended March 31, 2015, compared to $13.8 million in the same period of 2014. The decrease in net premiums earned was primarily due to a decrease in sales of single premium whole life policies. We continue to maintain price diligence on our single premium whole life product.

Net investment income decreased 12.7 percent to $13.6 million for the three-month period ended March 31, 2015, compared to $15.6 million for the same period of 2014. The decrease is due to a continuation of the low interest rate environment, a lower asset base due to declining annuity deposits and the change in the fair value of investment in limited liability partnerships. In the three-month period ended March 31, 2015, the change in value of investments in limited liability partnerships resulted in a decrease of $0.5 million to investment income as compared to the same period in the prior year.

Losses and loss settlement expenses increased $0.5 million for the three-month period ended March 31, 2015 compared to the same period of 2014 due to an increase in death benefits paid. Fluctuations in the timing of death benefits occur from quarter-to-quarter and year-to-year.

The increase in the liability for future policy benefits decreased in the three-month period ended March 31, 2015 compared to the same period of 2014 due to a decrease in sales of life insurance products.

Deferred annuity deposits decreased 31.8 percent for the three-month period ended March 31, 2015 compared to the same period of 2014. We gradually lowered the credited rate offered on our deferred annuity products during the low interest rate environment during the last year, which has resulted in a decrease in deferred annuity deposits for the three-month period ended March 31, 2015 as compared with the same period of 2014.

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Net cash outflow related to our annuity business was $35.0 million in the three-month period ended March 31, 2015, compared to a net cash outflow of $11.1 million in the same period of 2014. We attribute this to the interest rate activity described above.

For a detailed discussion of our consolidated investment results, refer to the "Investment Portfolio" section of this item.

Investment Portfolio

Our invested assets totaled $3.1 billion at March 31, 2015, compared to $3.2 billion at December 31, 2014, a decrease of $31.4 million. At March 31, 2015, fixed maturity securities and equity securities made up 90.3 percent and 7.9 percent of the value of our investment portfolio, respectively. Because the primary purpose of our investment portfolio is to fund future claims payments, we use a conservative investment philosophy, investing in a diversified portfolio of high-quality, intermediate-term taxable corporate bonds, taxable U.S. government bonds and tax-exempt U.S. municipal bonds. Our overall investment strategy is to keep our cash on hand low in the current interest rate environment. If additional cash is needed, we can borrow funds available under our revolving credit facility.

Composition

We develop our investment strategies based on a number of factors, including estimated duration of reserve liabilities, short- and long-term liquidity needs, projected tax status, general economic conditions, expected rates of inflation, regulatory requirements, interest rates and credit quality of assets. We administer our investment portfolio based on investment guidelines approved by management and the investment committee of our Board of Directors that comply with applicable statutory regulations.

The composition of our investment portfolio at March 31, 2015 is presented at carrying value in the following table:

| | Property & Casualty Insurance Segment | | | Life Insurance Segment | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| (In Thousands) | | Percent of Total | | | Percent of Total | | | Percent of Total | |
| Fixed maturities [1] | | | | | | | | | |
| Held-to-maturity | $256 | — | % | $110 | — | % | $366 | — | % |
| Available-for-sale | 1,291,092 | 82.6 | | 1,526,863 | 96.8 | | 2,817,955 | 89.8 | |
| Trading securities | 16,793 | 1.1 | | — | — | | 16,793 | 0.5 | |
| Equity securities | | | | | | | | | |
| Available-for-sale | 216,758 | 13.9 | | 26,793 | 1.7 | | 243,551 | 7.8 | |
| Trading securities | 3,746 | 0.2 | | — | — | | 3,746 | 0.1 | |
| Mortgage loans | — | — | | 4,141 | 0.3 | | 4,141 | 0.1 | |
| Policy loans | — | — | | 5,792 | 0.4 | | 5,792 | 0.2 | |
| Other long-term investments | 33,890 | 2.2 | | 13,169 | 0.8 | | 47,059 | 1.5 | |
| Short-term investments | 175 | — | | — | — | | 175 | — | |
| Total | $1,562,710 | 100.0 | % | $1,576,868 | 100.0 | % | $3,139,578 | 100.0 | % |

(1) Available-for-sale securities and trading fixed maturities are carried at fair value. Held-to-maturity fixed maturities are carried at amortized cost.

At March 31, 2015, we classified $2.8 billion, or 99.4 percent, of our fixed maturities portfolio as available-for-sale, compared to $2.8 billion, or 99.4 percent, at December 31, 2014. We classify our remaining fixed maturities as held-to-maturity or trading. We record held-to-maturity securities at amortized cost. We record available-for-sale securities at fair value, with any changes in fair value recognized in accumulated other comprehensive income. We record trading securities, primarily convertible redeemable preferred debt securities, at fair value, with any changes in fair value recognized in earnings.

As of March 31, 2015 and December 31, 2014, we did not have direct exposure to investments in subprime mortgages or other credit enhancement vehicles.

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Credit Quality

The following table shows the composition of fixed maturity securities held in our available-for-sale, held-to-maturity and trading security portfolios, by credit rating at March 31, 2015 and December 31, 2014. Information contained in the table is generally based upon the issued credit ratings provided by Moody's, unless the rating is unavailable, in which case we obtain it from Standard & Poor's.

| (In Thousands) | March 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| Rating | Carrying Value | % of Total | | Carrying Value | % of Total | |
| AAA | $873,362 | 30.8 | % | $896,367 | 31.4 | % |
| AA | 663,964 | 23.4 | | 637,305 | 22.3 | |
| A | 602,078 | 21.2 | | 621,293 | 21.7 | |
| Baa/BBB | 625,404 | 22.1 | | 641,497 | 22.4 | |
| Other/Not Rated | 70,306 | 2.5 | | 63,876 | 2.2 | |
| | $2,835,114 | 100.0 | % | $2,860,338 | 100.0 | % |

Duration

Our investment portfolio is invested primarily in fixed maturity securities whose fair value is susceptible to market risk, specifically interest rate changes. Duration is a measurement used to quantify our inherent interest rate risk and analyze our ability to match our invested assets to our reserve liabilities. If our invested assets and reserve liabilities have similar durations, then any change in interest rates will have an equal effect on these accounts. The primary purpose for matching invested assets and reserve liabilities is liquidity. With appropriate matching, our investments will mature when cash is needed, preventing the need to liquidate other assets prematurely. Mismatches in the duration of assets and liabilities can cause significant fluctuations in our results of operations.

Group

The weighted average effective duration of our portfolio of fixed maturity securities at March 31, 2015 is 4.4 years compared to 5.0 years at December 31, 2014.

Property and Casualty Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities at March 31, 2015 is 4.6 years compared to 4.8 years at December 31, 2014.

Life Insurance Segment

The weighted average effective duration of our portfolio of fixed maturity securities at March 31, 2015 is 4.3 years compared to 5.2 years at December 31, 2014.

Investment Results

We invest the premiums received from our policyholders and annuitants in order to generate investment income, which is an important component of our revenues and profitability. The amount of investment income that we are able to generate is affected by many factors, some of which are beyond our control. Some of these factors are volatility in the financial markets, economic growth, inflation, interest rates, world political conditions, terrorist attacks or threats of terrorism, adverse events affecting other companies in our industry or the industries in which we invest and other unpredictable national or world events. Our net investment income decreased by 9.0 percent in the three-month period ended March 31, 2015 compared with the same period of 2014. The decrease is due to the decline of reinvestment interest rates from the continued low interest rate environment and secondarily to the change in value of our investments in limited liability partnerships. We are maintaining our investment philosophy of purchasing fixed income investments rated investment grade or better.

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Our net realized investment gains were $0.9 million during the three-month period ended March 31, 2015, as compared with $2.2 million in the same period of 2014.

We hold certain investments in limited liability partnerships that are recorded on the equity method of accounting, with changes in the value of these investments recorded in investment income. In the three-month period ended March 31, 2015, the change in value of investments in limited liability partnerships resulted in a decrease of $0.9 million to investment income as compared to an increase of $1.0 million to investment income in the same period of 2014.

We regularly monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires other-than-temporary impairment charges to be recorded when we determine that it is more likely than not that we will be unable to collect all amounts due according to the contractual terms of the fixed maturity security or that the anticipated recovery in fair value of the equity security will not occur in a reasonable amount of time. Impairment charges on investments are recorded based on the fair value of the investments at the measurement date. Factors considered in evaluating whether a decline in value is other-than-temporary include: the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; our intention to hold the investment; and the likelihood that we will be required to sell the investment.

Changes in unrealized gains and losses on available-for-sale securities do not affect net income and earnings per share but do impact comprehensive income, stockholders' equity and book value per share. We believe that any unrealized losses on our available-for-sale securities at March 31, 2015 are temporary based upon our current analysis of the issuers of the securities that we hold and current market conditions. It is possible that we could recognize impairment charges in future periods on securities that we own at March 31, 2015 if future events and information cause us to determine that a decline in value is other-than-temporary. However, we endeavor to invest in high quality assets to provide protection from future credit quality issues and corresponding other-than-temporary impairment write-downs.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures our ability to generate sufficient cash flows to meet our short- and long-term cash obligations. Our cash inflows are primarily a result of the receipt of premiums, annuity deposits, reinsurance recoveries, sales or maturities of investments, and investment income. Cash provided from these sources is used to fund the payment of losses and loss settlement expenses, policyholder benefits under life insurance contracts, annuity withdrawals, the purchase of investments, operating expenses, dividends, pension plan contributions, and in recent years, common stock repurchases.

We monitor our capital adequacy to support our business on a regular basis. The future capital requirements of our business will depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. In particular, we require (1) sufficient capital to maintain our financial strength ratings, as issued by various rating agencies, at a level considered necessary by management to enable our insurance company subsidiaries to compete and (2) sufficient capital to enable our insurance company subsidiaries to meet the capital adequacy tests performed by regulatory agencies in the U.S.

Cash outflows may be variable because of the uncertainty regarding settlement dates for losses. In addition, the timing and amount of individual catastrophe losses are inherently unpredictable and could increase our liquidity requirements. The timing and amount of reinsurance recoveries may be affected by reinsurer solvency and reinsurance coverage disputes.

Historically, we have generated substantial cash inflows from operations. It is our policy to invest the cash generated from operations in securities with maturities that, in the aggregate, correlate to the anticipated timing of payments for losses and loss settlement expenses and future policyholder benefits of the underlying insurance policies, and annuity withdrawals. The majority of our assets are invested in available-for-sale fixed maturity securities.

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The following table displays a summary of cash sources and uses in 2015 and 2014.

| Cash Flow Summary | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | 2015 | 2014 |
| Cash provided by (used in) | | |
| Operating activities | $13,853 | $18,491 |
| Investing activities | 43,962 | (31,746) |
| Financing activities | (37,069) | (10,275) |
| Net increase (decrease) in cash and cash equivalents | $20,746 | $(23,530) |

Operating Activities

Net cash flows provided by operating activities totaled $13.9 million and $18.5 million for the three-month periods ended March 31, 2015 and 2014, respectively. Operating cash flows in the three-month period ended March 31, 2015 reflect a higher level of property and casualty loss payments partially offset by an increase in net income. Our cash flows from operations were sufficient to meet our liquidity needs for the three-month periods ended March 31, 2015 and 2014.

Investing Activities

Cash in excess of operating requirements is generally invested in fixed maturity securities and equity securities. Fixed maturities provide regular interest payments and allow us to match the duration of our liabilities. Equity securities provide dividend income, potential dividend income growth and potential appreciation. For further discussion of our investments, including our philosophy and our strategy for our portfolio, see the "Investment Portfolio" section of this item.

In addition to investment income, possible sales of investments and proceeds from calls or maturities of fixed maturity securities also can provide liquidity. During the next five years, $1.0 billion, or 35.6 percent, of our fixed maturity portfolio will mature.

We invest funds required for short-term cash needs primarily in money market accounts, which are classified as cash equivalents. At March 31, 2015, our cash and cash equivalents included $46.1 million related to these money market accounts, compared to $28.1 million at December 31, 2014.

Net cash flows provided by investing activities were $44.0 million for the three-month period ended March 31, 2015 compared to net cash flows used in investing activities of $31.7 million for the three-month period ended March 31, 2014. For the three-month periods ended March 31, 2015 and 2014, we had cash inflows from scheduled and unscheduled investment maturities, redemptions, prepayments, and sales of investments of $181.3 million and $104.3 million, respectively.

Our cash outflows for investment purchases were $135.5 million for the three-month period ended March 31, 2015, compared to $133.1 million for the same period of 2014. In 2015, we continue to purchase a higher level of fixed maturity securities, which are more profitable than other categories of investments when market interest rates are low.

Financing Activities

Net cash flows used in financing activities were $37.1 million and $10.3 million for the three-month periods ended March 31, 2015 and 2014, respectively. The increase reflects a higher level of net annuity withdrawals in the three-month period ended March 31, 2015, compared to the same period of 2014.

Credit Facilities

In December 2011, United Fire entered into a credit agreement with a syndicate of financial institutions as lenders, KeyBank National Association as administrative agent, lead arranger, sole book runner, swingline lender, and letter of credit issuer, and Bankers Trust Company as syndication agent.

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On June 4, 2013, United Fire & Casualty Company, United Fire Group, Inc. and the syndicated lenders entered into an Assignment, Joinder, Assumption, and Release Agreement (the "Joinder Agreement") transferring the obligations under the credit agreement from United Fire & Casualty Company to United Fire Group, Inc. Effective with the execution of the Joinder Agreement, United Fire & Casualty Company was released from any further obligations under the credit agreement. As of March 31, 2015, there were no balances outstanding under this credit agreement. For further discussion of our credit agreement, refer to Part I, Item 1, Note 8 "Credit Facility" to the unaudited Consolidated Financial Statements.

Dividends

Dividends paid to shareholders totaled $5.0 million and $4.6 million in the three-month periods ended March 31, 2015 and 2014, respectively. Our practice has been to pay quarterly cash dividends, which we have paid every quarter since March 1968.

Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors out of legally available funds.

As a holding company with no independent operations of its own, United Fire Group, Inc. relies on dividends received from its insurance company subsidiaries in order to pay dividends to its common shareholders. Dividends payable by our insurance subsidiaries are governed by the laws in the states in which they are domiciled. In all cases, these state laws permit the payment of dividends only from earned surplus arising from business operations. For example, under Iowa law, the maximum dividend or distribution that may be paid within a 12-month period without prior approval of the Iowa Insurance Commissioner is generally restricted to the greater of 10 percent of statutory surplus as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. Other states in which our insurance company subsidiaries are domiciled may impose similar restrictions on dividends and distributions. Based on these restrictions, at March 31, 2015, United Fire Group Inc.'s sole direct insurance company subsidiary, United Fire & Casualty Company, is able to make a maximum of $39.6 million in dividend payments without prior regulatory approval. These restrictions will not have a material impact in meeting our cash obligations.

Stockholders' Equity

Stockholders' equity increased 3.3 percent to $844.2 million at March 31, 2015, from $817.4 million at December 31, 2014. The increase was primarily attributable to net income of $23.7 million and an increase in net unrealized investment gains of $7.3 million, net of tax, during the first three months of 2015, partially offset by shareholder dividends of $5.0 million and share repurchases of $1.1 million. At March 31, 2015, the book value per share of our common stock was $33.76 compared to $32.67 at December 31, 2014.

Funding Commitments

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through December 31, 2023 to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was $10.3 million at March 31, 2015.

MEASUREMENT OF RESULTS

Our consolidated financial statements are prepared on the basis of GAAP. We also prepare financial statements for each of our insurance company subsidiaries based on statutory accounting principles and file them with insurance regulatory authorities in the states where they do business.

Management evaluates our operations by monitoring key measures of growth and profitability. We believe that disclosure of certain non-GAAP financial measures enhances investor understanding of our financial performance. The following section provides further explanation of the key measures management uses to evaluate our results.

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Catastrophe losses is a commonly used non-GAAP financial measure that uses the designations of the Insurance Services Office (ISO) and are reported with losses and loss settlement expense amounts net of reinsurance recoverables, unless specified otherwise. According to the ISO, a catastrophe loss is defined as a single unpredictable incident or series of closely related incidents that result in $25.0 million or more in U.S. industry-wide direct insured losses to property and that affect a significant number of insureds and insurers ("ISO catastrophe"). In addition to ISO catastrophes, we also include as catastrophes those events ("non-ISO catastrophes"), which may include U.S. or international losses that we believe are, or will be, material to our operations, either in amount or in number of claims made. Management, at times, may determine for comparison purposes that it is more meaningful to exclude extraordinary catastrophe losses and resulting litigation. The frequency and severity of catastrophic losses we experience in any year affect our results of operations and financial position. In analyzing the underwriting performance of our property and casualty insurance segment, we evaluate performance both including and excluding catastrophe losses. Portions of our catastrophe losses may be recoverable under our catastrophe reinsurance agreements. We include a discussion of the impact of catastrophes because we believe it is meaningful for investors to understand the variability in our periodic earnings.

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | 2015 | 2014 |
| ISO catastrophes | $211 | $3,275 |
| Non-ISO catastrophes [1] | — | — |
| Total catastrophes | $211 | $3,275 |

(1) This number includes international assumed losses.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to market risk arising from potential losses in our investment portfolio due to adverse changes in interest rates and market prices. However, we have the ability to hold fixed maturity investments to maturity. Our investment guidelines define the overall framework for managing our market and other investment risks including accountability and controls. In addition, each of our subsidiaries has specific investment policies that delineate the investment limits and strategies that are appropriate given each entity's liquidity, surplus, product, and regulatory requirements. We respond to market risk by managing the character of investment purchases.

It is our philosophy that we do not utilize financial hedges or derivative financial instruments to manage risks, nor do we enter into any swap, forward or option contracts, but attempt to mitigate our exposure through active portfolio management. In addition, we place the majority of our investments in high-quality, liquid securities and limit the amount of credit exposure to any one issuer. At March 31, 2015, we did not have direct exposure to investments in sub-prime mortgages or other credit-enhancement exposures.

While our primary market risk exposure is to changes in interest rates, we do have limited exposure to changes in equity prices and limited exposure to foreign currency exchange rates.

There have been no material changes in our market risk or market risk factors from what we reported in our Annual Report on Form 10-K for the year ended December 31, 2014.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Interim Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Interim Principal Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

### Changes in Internal Control Over Financial Reporting

Our management, including our Chief Executive Officer and Interim Principal Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, no such change in our internal control over financial reporting occurred during the fiscal quarter to which this report relates.

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS
We consider all of our litigation pending as of March 31, 2015 to be ordinary, routine, and incidental to our business.

### ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, including those identified in Part I, Item 1A "Risk Factors" in our 2014 Annual Report on Form 10-K filed with the SEC on March 2, 2015, that could have a material effect on our business, results of operations, financial condition, and/or liquidity and that could cause our operating results to vary significantly from period to period. The risks described in the above mentioned report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also have a material effect on our business, results of operations, financial condition and/or liquidity.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Under our share repurchase program, first announced in August 2007, we may purchase United Fire common stock from time to time on the open market or through privately negotiated transactions. The amount and timing of any purchases will be at our discretion and will depend upon a number of factors, including the share price, general economic and market conditions, and corporate and regulatory requirements.

The following table provides information with respect to purchases of shares of common stock made by or on our behalf or by any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Exchange Act, during the three-month period ended March 31, 2015.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs | Maximum Number of Shares that may yet be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| 1/1/2015 - 1/31/2015 | 37,637 | $28.78 | 37,637 | 1,570,645 |
| 2/1/2015 - 2/28/2015 | — | — | — | 1,570,645 |
| 3/1/2015 - 3/31/2015 | — | — | — | 1,570,645 |
| Total | 37,637 | $28.78 | 37,637 | |

(1) Our share repurchase program was originally announced in August 2007. In August 2014, our Board of Directors authorized the repurchase of up to an additional 1,000,000 shares of common stock through the end of August 2016. This is in addition to the 818,601 shares of common stock remaining under its previous authorization in August 2012.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

None.

### ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

| Exhibit number | Exhibit description | Filed herewith |
|---|---|---|
| 11 | Statement Re Computation of Per Share Earnings. All information required by Exhibit 11 is presented within Note 7 of the Notes to Unaudited Consolidated Financial Statements, in accordance with the FASB guidance on Earnings per Share. | X |
| 31.1 | Certification of Randy A. Ramlo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X |
| 31.2 | Certification of Kevin W. Helbing pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X |
| 32.1 | Certification of Randy A. Ramlo pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | X |
| 32.2 | Certification of Kevin W. Helbing pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | X |
| 101.1 | The following financial information from United Fire Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 formatted in XBRL: (i) Consolidated Balance Sheets at March 31, 2015 (unaudited) and December 31, 2014; (ii) Consolidated Statements of Income and Comprehensive Income (unaudited) for the three months ended March 31, 2015 and 2014; (iii) Consolidated Statement of Stockholders’ Equity (unaudited) for the three months ended March 31, 2015; (iv) Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2015 and 2014; and (v) Notes to Unaudited Consolidated Financial Statements, tagged as a block of text. | X |

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED FIRE GROUP, INC.
(Registrant)

| | |
|---|---|
| /s/ Randy A. Ramlo | /s/ Kevin W. Helbing |
| Randy A. Ramlo | Kevin W. Helbing |
| President, Chief Executive Officer,<br>Director and Principal Executive Officer | Interim Principal Financial Officer |
| May 5, 2015 | May 5, 2015 |
| (Date) | (Date) |